

FEDERAL DEPOSIT INSURANCE CORPORATION

Strategic Plan

1997 - 2002

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FDIC STRATEGIC PLAN

OVERVIEW

Mission Statement

The Federal Deposit Insurance Corporation (FDIC) is the independent deposit insurance agency created by Congress to maintain stability and public confidence in the nation's banking system.

In its unique role as deposit insurer of banks and savings associations, and in cooperation with the other federal and state regulatory agencies, the FDIC promotes the safety and soundness of insured depository institutions and the U.S. financial system by identifying, monitoring, and addressing risks to the deposit insurance funds.

The FDIC promotes public understanding and sound public policies by providing financial and economic information and analysis. It minimizes disruptive effects from the failure of banks and savings associations. It assures fairness in the sale of financial products and the provision of financial services.

The FDIC's long and continuing tradition of public service is supported and sustained by a highly skilled and diverse workforce that responds rapidly and successfully to changes in the financial environment.

Corporate Vision Statement

To assure that the FDIC is an organization dedicated to identifying existing and emerging risks to the deposit insurance funds.

Corporate Values Statement

All FDIC operations are guided by the following core values:

Effectiveness. The FDIC's reputation rests on its professionalism, its adherence to the highest ethical standards, and its skilled and dedicated workforce.

Responsiveness. The FDIC responds rapidly, innovatively and effectively to risks to the financial system. It works effectively with other federal and state regulators to achieve uniformity in policy and regulation. It seeks and considers information from the Congress, the financial industry, individuals seeking and receiving financial services, and others outside the FDIC in the development of policy.

Teamwork. The FDIC challenges its employees to work cooperatively across internal and external organizational boundaries, and promotes and reinforces a corporate perspective.

Fairness. The FDIC treats everyone with whom it deals fairly and equally. It exercises its responsibilities with care, precision and impartiality. The FDIC adheres to equal opportunity standards.

Service. The FDIC has a long history of public service, and it is committed to upholding this distinguished tradition.

THE FDIC AND THE BANKING INDUSTRY

Creation of the FDIC

Congress created the FDIC as part of the Banking Act of 1933 to maintain stability and public confidence in the nation's banking system. The agency was formed after a wave of bank failures at the onset of the Great Depression. The extensive number of failures showed that the federal government needed to guarantee deposits in U.S. financial institutions so customers' funds, within certain limits, would be safe and available to them on demand in the event of a bank failure. Originally, FDIC's insurance coverage limit was set at \$2,500. This limit has been subsequently increased several times since 1933, and is currently \$100,000.

Recent History

From 1980 through 1994, FDIC managed the failures of 1,617 banks. In 1988, the insurance fund suffered a loss of \$4.2 billion, the first operating loss in its 55-year history. In 1989, the number of bank failures peaked at 206 failures. Although the number of bank failures were at post-depression record levels, it was the more widespread and much larger failures of savings and loan institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC) that focused attention on the future of the federal deposit insurance system. In 1989, President Bush signed into law the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA eliminated FSLIC and transferred its assets to the FSLIC Resolution Fund (FRF), managed by the FDIC. Savings and loans that failed between January 1, 1989 and July 1, 1995, were handled by the Resolution Trust Corporation (RTC). Today, savings and loans are insured by the Savings Association Insurance Fund (SAIF), which is also managed by the FDIC.

The 1990s were a time of rebuilding for the FDIC and the banking industry. The FDIC liquidated almost \$317 billion in assets from the failed banks. During 1996, commercial banks earned a record \$52.4 billion, exceeding \$50 billion in annual earnings for the first time. Returns on assets

averaged 1.19%, a high level of performance. In 1996, only 5 banks and 1 thrift failed. At year-end, the BIF and SAIF funds combined held a total of \$35.8 billion, the largest reserves in FDIC history.

FDIC's Current Focus

The Corporation's focus has shifted from handling and resolving failed institutions to monitoring and assessing existing and emerging risk in insured financial institutions. In 1996, we announced new efforts to monitor and assess existing and emerging risks in part by developing a tiered-examination approach that targets the level of risk and risk management practices at specific institutions. We also began developing specific guidelines for examiners on how to factor relevant, economic, and other data into their risk evaluations of specific institutions. While full scope examinations will continue to be performed, these guidelines will focus examiner resources into areas of a bank that present the most risk.

A major source of data supporting this new approach is our newly created Division of Insurance, which achieved full-scale operations in 1996. The new division analyzes data collected from the bank, as well as economic and financial data from other public and private sources, to give the FDIC a comprehensive perspective on the industry and the trends that affect it. In addition, with heightened emphasis on risk assessment, the FDIC Board, in December 1996, adopted the new interagency "CAMELS" rating system for assessing the soundness of financial institutions.

State of the Industry

Commercial bank profits have reached record levels for the fifth consecutive year in 1997. In 1996, thrift industry earnings would have set a new record, if not for a one-time special assessment to capitalize the Savings Association Insurance Fund. Loan growth continues to show strength at banks and thrifts, helping to increase net interest income.

The number of commercial banks reporting financial results fell to 9,451 in the first quarter of 1997, a net decline of 77 since year-end 1996 and 387 since the first quarter of 1996. Mergers absorbed 127 banks during the first quarter, while 42 new banks were chartered. The number of commercial banks on FDIC's problem list fell from 82 to 77 since the year-end and assets of problem

The FDIC and The Banking Industry (Continued)

banks declined by \$100 million to \$5 billion.

There are 1,886 savings institutions at the end of March 31, 1997, a net decline of 38 since year-end 1996. The number of savings institutions on FDIC's problem list is unchanged from the year-end total of 35, although assets of problem thrifts fell from \$7 billion to \$5 billion.

There have been no bank or thrift failures in the first two quarters of 1997.

FDIC CORPORATE PLANNING PROCESS

The FDIC began strategic planning efforts in 1992 that culminated in 1994 in a formalized strategic planning process designed to produce a five-year plan to guide the activities of the FDIC until the year 2000. The process resulted in the formulation and articulation of mission, vision, and value statements for the Corporation and the first formal Strategic Plan in the 64-year history of the agency. In 1996, FDIC developed a Corporate Business Plan to manage its day-to-day operations oriented to accomplishment of the strategic goals and objectives. In response to our congressional consultations, as required by the Government Performance and Results Act (the Results Act), FDIC has consolidated the business plan with the strategic plan in accordance with the Results Act requirements and in preparation of its Annual Performance Plan.

The Strategic Plan provides a framework for implementing the agency's mission of maintaining the safety and soundness of the nation's banking system through the identification of existing and emerging risks to the deposit insurance funds. The Strategic Plan continues to set a course for the organization and provides a framework to guide decisions about the effective use of resources. The Plan focuses on the FDIC's three major program areas: Insurance; Supervision; and Policy, Regulation and Outreach. Each program area is comprised of two or more functional areas. Long term goals and objectives have been identified for each functional area, along with the strategies to be followed in pursuit of the achievement of these goals.

The Strategic Plan is implemented through the Corporate Annual Performance Plan, which defines what will be accomplished during the year to achieve the strategic goals and objectives. The Annual Performance Plan identifies workload assumptions, strategies, annual performance goals and target levels of performance for each program area. The Strategic Plan and the Corporate Annual Performance Plan are supported by more detailed annual performance plans developed by those divisions that drive the FDIC's major programs ("driver divisions"). The driver organization plans address the execution of program activities that support both the Strategic Plan and the Annual Performance Plan. The support divisions, i.e., those organizations not directly responsible for carrying out one of the three major programs, follow with their annual performance plans, which are based largely on the planned activities and projected workload of the driver divisions.

The Annual Performance Plan is also supported by a number of shorter-term projects that facilitate the achievement of the FDIC's broader, long-term strategic goals. The projects are primarily strategic in nature and are oriented towards improving the efficiency and effectiveness of FDIC mission-related programs and internal operations. The projects utilize cross-organizational teamwork to promote innovative solutions and foster employee ownership of the Strategic Plan. One hundred fifty two initial projects were

FDIC Corporate Planning Process (Continued)

established in 1995 with input from staff at all levels throughout the FDIC. New projects are added each year and, to date, over 100 projects have been completed.

In May 1997, the FDIC initiated a quarterly performance reporting process with respect to the annual performance goals set forth in the 1997 Annual Performance Plan. A comprehensive report, which details corporate performance using both graphical and narrative format, is presented on a quarterly basis to the FDIC's Operating Committee, comprised of the Chairman and FDIC senior management. The Operating Committee meeting is the principal mechanism by which corporate program performance and results are evaluated and recommendations are made, where appropriate, for changes to current strategies, goals, objectives, or resource allocation.

Our planning process, including development of the Strategic Plan, involves staff at all levels. Corporate goals, priorities, and planning decisions are communicated to managers and staff throughout the agency through a myriad of media including staff meetings, newsletters, and the website. This process of communicating corporate priorities and soliciting input from employees at all levels has the effect of promoting accountability on the part of managers and staff for achieving these goals they have helped to develop. FDIC senior management has also placed an emphasis on educating management and staff throughout the FDIC on the implementation of the Government Performance and Results Act and the positive impact it will have on the FDIC.

The resultant Strategic Plan communicates to the FDIC's employees and stakeholders, the FDIC's responsibility and plan for maintaining stability and public confidence in the nation's banking system. The Strategic Plan focuses the FDIC's resources in three major program areas, which are necessary for the accomplishment of the FDIC's mission. The implementation of the Strategic Plan will result in the following benefits to the public:

- Continued stability and confidence in the nation's banking system.
- Minimal disruption to the public during resolution of failing institutions, including timely customer access to funds and services.
- Public and industry understanding of the financial system, deposit insurance and consumer and fair lending laws.

Coupled with the FDIC's Annual Performance Plan, the Strategic Plan establishes specific plans and measurable objectives for which the public and other FDIC stakeholders can evaluate the FDIC's success in fulfilling its mission.

The FDIC is well positioned to meet the statutory requirements of the Results Act. We have a long range Strategic Plan and an Annual Performance Plan in place. The FDIC recognizes that this is an evolving process and over time we will continue to strive to enhance our planning process by continually moving towards more results-oriented goals as our process matures.

FDIC'S MAJOR PROGRAM AREAS

Insurance

Supervision

Policy, Regulation, and Outreach

Internal Corporate Initiatives

INSURANCE PROGRAM

The FDIC insures depositor accounts at FDIC-insured financial institutions for up to \$100,000 per depositor. In the event of a loss due to an institution's insolvency, the FDIC maintains and manages two insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). In addition to these, the FDIC administers the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF), representing assets and obligations arising from the operations of both the Federal Savings and Loan Insurance Corporation (FSLIC) and the Resolution Trust Corporation (RTC).

In the Corporation's role as an insurer, it is incumbent on the FDIC to assess both existing and potential risk to the deposit insurance funds and to take an active approach in controlling that risk, and pricing it appropriately through deposit insurance premiums. In addition, the FDIC is charged with the responsibility of minimizing costs to the insurance funds through the orderly and least costly resolution of failed and failing institutions, and by effectively managing receivership operations.

Given these responsibilities, the Insurance program area comprises three functions identified as Risk Analysis and Assessment, Resolution of Failing Institutions, and Receivership Management.

INSURANCE PROGRAM

Risk Analysis and Assessment Function

Functional Area

Risk Analysis and Assessment

Description

The Risk Analysis and Assessment function involves the development of a proactive approach for identifying, measuring, and monitoring risks to the insurance funds. Within this function, there are two primary areas of activity: Analysis and Assessments. The Analysis area consists of identifying, analyzing, and reporting on current and emerging risks to the deposit insurance funds, as well as working to bridge the gap between the macro and the micro perspectives in the risk assessment of specific institutions. The principal methods available to the FDIC for analyzing risks to the funds are its on- and off-site supervisory activities and the evaluation of economic and financial conditions affecting insured institutions.

The Assessments area includes the FDIC's efforts to address and manage risk to the funds through supervisory activities and the risk-based premium system. These programs ensure that FDIC appropriately evaluates, responds to and charges for risks to the insurance funds, while exploring refinements to its supervisory and risk-based premium programs in response to new or evolving risks.

Strategies & Initiatives

Operations

The Division of Insurance (DOI) and the Division of Supervision (DOS) are responsible for leading the Corporation's efforts to identify and address risks to the deposit insurance funds. DOI strategies and major initiatives include enhancing the ongoing coverage of economic, financial, and banking developments, and prioritizing the identified issues and risks in relation to insured institutions and the deposit insurance fund. Major

initiatives for communicating the Corporation's perspective on these issues include ad hoc analyses, presentations, and the *Regional Outlook*. The *Regional Outlook* identifies and reports current and emerging risks to the deposit insurance funds, as well as providing a macro perspective for the risk assessment of individual institutions. DOS strategies include its ongoing examination and supervisory program and enhanced management reporting capabilities. A cross-divisional team has been established for implementing the delivery of Field Office Economic Reports electronically over the FDICnet to examiners. These reports will provide information on business conditions and economic trends that affect insured institutions.

Corporate efforts to strengthen the FDIC's insurance function include: further development and implementation of a contingent loss reserving method through the Failure Projection Working Group; further development of the risk focused examination and supervisory program; enhancing failure-projection and related risk analysis methods as needed; responding to legislative and other proposals that may affect the funds, including proposed deposit insurance reforms, through testimony support, development of FDIC proposals, symposia, outreach, and related efforts; and developing systems/processes to address assessment issues arising out of recent changes in the law and to accommodate a merger of the funds. In addition, a review of the process for assigning assessment risk classifications under the current pricing system is planned, to ensure that institutions are classified appropriately and to maintain operational efficiency.

Staffing

In addition to onsite examinations and routine offsite analyses done at the regional level, DOS, as part of the recently adopted Case Manager concept, implemented the Washington Office Management Information Group (WOMIG) which will be staffed in 1998. WOMIG responsibilities include tracking offsite analyses performed by the regional office staff, and providing industry trend analyses and other analytical reports requested by senior management. The Case Manager concept includes Case Managers and Regional Office Management Information Group (ROMIG) in addition to WOMIG. WOMIG and

ROMIG will continue to provide extensive training and input on the development of monitoring and management information systems.

DOI's staffing plan calls for a small core staff in Washington and the Regions supplemented by continuous detail assignments from the other Divisions. In particular, DOI will use examiners to enhance our initiatives to "bridge the gap" between the macro- and the micro-perspective in identifying existing and emerging risks to the deposit insurance funds. The examiner details will include FDIC examiners and examiners from other bank regulatory agencies.

Technology

A critical component to DOI's staffing strategy is the use of technology. DOI and the Division of Information Resource Management developed an integrated technology team to leverage the use of technology while maintaining a small DOI staff. For example, a prototype for delivering Field Office Economic Reports combines a systematic approach for providing detailed local economic reports to examiners through a web-based distribution process.

DOS will utilize the Financial Institution Ratio System and First Call to obtain additional analytical information on financial institutions. The Financial Institution Ratio System will be used for large bank analyses. First Call is an Internet site that provides information generated by industry analysts.

Impact of Internal & External Factors

The Insurance program implements the Corporation's efforts to identify and analyze risks to the deposit insurance funds arising from trends in the economic, financial and banking sectors and to ensure the risk-based assessment system maintains the viability of the FDIC's deposit insurance funds. The workload of the risk analysis and assessment function is affected by the following:

- The economy, banking and financial markets will continue to exhibit rapid change, thus requiring monitoring and analysis to determine the effect on the risk profiles of FDIC-insured institutions.
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- Credit risk will take new forms, off-balance sheet activities of banks will grow and market risk will become an increasingly more important element of insured institutions' risk profiles.
 - Policy development efforts with respect to risk assessment and management will require analytical support, and new developments could require operational adjustments in the assessment process.
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Strategic Goal and Objectives

Proactively identify and address risks to the deposit insurance funds.

- Report current and emerging risks to the deposit insurance funds.
 - Ensure that all identified risks to the insurance funds are appropriately reflected in the assessment rate and risk-based premium system.
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Relationship of Strategic Goal to Annual Performance Goals

Identifying, addressing and reporting risks to the deposit insurance funds will be accomplished in part by producing regular reports that discuss developments affecting the risk profiles of FDIC-insured institutions. These reports describe key economic, market, and industry trends and are distributed to FDIC staff as well as to all insured institutions and other banking regulators. These reports are intended to be used by examiners to help focus their efforts and to increase the effectiveness of examinations by sharpening their focus on the areas of greater risk. In addition, these reports provide a basis for supervisory notices such as Financial Institution Letters, to insured institutions on economic and macro trends that may affect the way they do business. Industry trend reports developed through on and offsite analyses will be provided to FDIC senior management.

Premium rate cases are prepared in order to link quantitatively the level of assessments charged institutions to the risk of insuring these institutions.

INSURANCE PROGRAM

Resolution of Failing Institutions Function

Functional Area

Resolution of Failing Institutions

Description

In resolving a failing institution, the FDIC will pursue the orderly and least costly resolution of that institution, as required by law. To accomplish this task, the FDIC will continue to develop, refine, and implement resolution strategies which minimize losses to the insurance funds. During this process, the FDIC will solicit proposals from approved bidders, analyze and evaluate the cost of each proposal received, consummate the transaction approved by the Board of Directors, and monitor acquirers' compliance with terms of resolution agreements. The monitoring of agreements currently in effect include those related to the FSLIC Resolutions Fund as well as the Bank Insurance Fund. In some instances, institutions may be recapitalized or merged with other institutions prior to the completion of the resolution process.

Strategies & Initiatives

Operations

The Division of Resolutions and Receiverships (DRR) will continue to lead a study of possible performance measurement tools for the purpose of validating assumptions used in the Asset Valuation Reserve (AVR) process, the least cost test, and improving the design of resolution structures. Each of these processes will be refined to enhance the resolution process. These efforts will be jointly accomplished with various FDIC Divisions and Offices participation.

Should an unexpected increase in failure activity occur, DRR continues to study options and alternatives available to address such activity. Contingency Planning guidelines are in draft form regarding a large and complex failure and the various resources needed. In the event the FDIC were required to respond to an unanticipated large failure or

several smaller failures simultaneously, the contingency plan suggests that staffing needs first be addressed within DRR and then by other FDIC divisions. Primarily, staff would need to have some liquidation experience or knowledge of banking operations. If the need arose, contractor services or temporary staff appointments may also be necessary to meet the demand. Another ongoing effort to maximize DRR efficiencies and responsiveness is a review of the existing contingency planning guidelines for handling regular size failures. These manuals are being updated to ensure consistency and efficiency throughout the resolution process.

Staffing

Consistent with Corporate projections of minimal failure activity over the next several years, DRR staffing attributed to this functional area is projected to decline over the next 5 years.

Training

A key focus of training is the continued development of a DRR core training program covering all aspects of failing institution resolution. Immediate plans address classes on financial analysis and basic deposit insurance. Future courses to address other critical functions within the functional area will be developed over the next few years.

Technology

Ongoing efforts will focus on life expectancy of various systems and necessary upgrades to accommodate changing technological tools. Improvement of risk analysis tools will provide for better warnings of potential issues and concerns.

Impact of Internal & External Factors

Externally, few factors are expected to affect the achievement of the goal to “Minimize Costs to the Insurance Funds From Failing Institutions”. The single external factor affecting FDIC most in this area is the economy. The present economic situation has had a positive influence on financial markets in general and the banking industry in particular. Currently, the number of

Resolution of Failing Institutions Function (Continued)

troubled institutions is very low and requires very little intervention on the part of the FDIC, particularly with respect to failure activity.

Internally, staff attrition and continued downsizing may contribute to a loss of historical knowledge and experience gained from the lessons learned in the 1980's and early 1990's.

Strategic Goal and Objective

Minimize Costs to the Insurance Funds from Failing Financial Institutions.

- Efficiently and effectively manage the resolution of failing FDIC-insured institutions.
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Relationship of Strategic Goal to Annual Performance Goals

Currently the FDIC long term goals and the annual performance goals tied to the Resolution of Failing Institution function are similar. Projected activity in this area is low, allowing the FDIC to study options for improving present practices. Over the long term, it is anticipated that many of the ongoing studies and process refinements will strengthen the FDIC to better prepare for any future downturns in the economy and increased financial institution resolution activity. Two of the annual performance goals are the timely resolution of troubled institutions and the marketing of institution assets, both aimed at minimizing costs to the insurance funds. The third annual performance goal is focused on providing customers of any failed institutions with access to the funds and services in a timely and efficient manner.

INSURANCE PROGRAM

Receivership Management Function

Functional Area

Receivership Management

Description

Once an institution is declared insolvent, it is taken into receivership and its assets are sold or liquidated. During this process, the FDIC works closely with depositors, debtors, and claimants of the failed institution, to ensure all are treated fairly and equitably. If no deposit-assuming institution is obtained during the resolution process, the FDIC moves quickly to begin payment of insured deposits, to inform uninsured depositors of their rights and responsibilities, and to notify general claimants of their obligations to provide proof of claims. During this process, the FDIC must also adhere to applicable state laws, as well as federal regulations addressing the payment of insured monies. Throughout the life of the receivership, cash availability is analyzed for payment of either accelerated or traditional dividends to proven claimants.

As a matter of procedure, the FDIC conducts an investigation into each failed institution to determine if any negligence, misrepresentation, or wrongdoing was knowingly committed. Funds recovered from these investigations are returned to the receivership.

The FDIC works to dispose of the remaining assets of an insolvent institution in a timely manner which maximizes value to the receivership and insurance funds. Historically, assets have been disposed of through a variety of methods. The FDIC continues to investigate other cost-effective approaches for asset disposition. Timely disposition of assets from failed institutions is a significant factor in keeping the insurance funds liquid.

Following resolution of claims, disposition of most assets, payment of eligible claims, and any other funds allocation on behalf of the receivership, the FDIC proceeds with termination of the receivership. This involves preparation of final accounting statements and can involve the issuance of a legal opinion that all obligations of the FDIC as receiver have been met.

Strategies & Initiatives

Operations

A major study being led by the Division of Resolutions and Receiverships, with participation from the Division of Finance and Legal Division, is underway to evaluate the current methods used in the management of a failed institution receivership. The effort is focusing on establishing clear accountability to the customers and shareholders of a failed financial institution. This study specifically addresses our goal of efficient and responsive receivership management. The Standard Asset Valuation Estimate (SAVE) methodologies will be studied for expansion into other facets of FDIC valuations other than Asset Loan Reserves.

Staffing

Consistent with Corporate projections for minimal failure activity over the next several years, DRR staffing is projected to decline over the next 5 years.

Training

A key focus of training for this functional area is the development of a DRR core training program covering all aspects of receivership management. Immediate plans address classes on financial analysis and asset marketing. Future courses to address other critical functions within the functional area will be developed over the next few years.

Technology

A key activity over the next few years will be the study of any pending issues to ensure that FDIC managed assets are Year 2000 compliant. The study will identify potential liabilities, concerns, pending issues, and present

Receivership Management Function (Continued)

Impact of Internal & External Factors

recommendations on necessary actions. Other ongoing efforts will focus on the life expectancy of various systems and necessary upgrades to accommodate changing technological tools.

The external factor affecting FDIC most in this area is the economy. Currently the number of troubled institutions is low and requires little intervention on the part of the FDIC. This has allowed FDIC to focus more on the existing inventory of assets and impediments to the close out of receiverships. Additionally, the pending legal case on goodwill is expected to continue its negative impact on the FDIC's ability to close out receiverships.

Internally, staff attrition and continued downsizing may contribute to a loss of historical knowledge and experience gained from the heavy activity of the late 1980's and early 1990's.

Strategic Goal and Objectives

Foster efficient and responsive receivership management.

- Manage receiverships from the Banking Insurance Fund (BIF), Savings Insurance Fund (SAIF), and FSLIC Resolution Fund (FRF), which includes the Resolution Trust Corporation (RTC), in an efficient and timely manner.
 - Market and manage financial institution assets to maximize value and resolve or collect on non-asset related matters in a fair and equitable manner.
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Relationship of Strategic Goal to Annual Performance Goals

Currently the FDIC focus in the Receivership Management annual performance goals is the disposition of existing inventory and close out of receiverships. These goals are aimed at efficient and responsive receivership management. Additionally, ongoing reviews of present practices and techniques afford FDIC the ability to update policies, procedures, and practices so that we are better prepared for any future downturns in the economy and increased receivership management activity.

SUPERVISION PROGRAM

The Supervision program is the primary emphasis of the FDIC in fulfilling its role of promoting the safety and soundness of insured depository institutions. The FDIC begins this process by reviewing applications of institutions seeking entry into the deposit insurance system. In performing its supervisory functions, the FDIC also:

- conducts ongoing risk assessments on all FDIC-insured institutions;
- examines financial institutions to ensure financial safety and soundness and compliance with applicable laws and consumer protection and civil rights legislation (in support of public policy initiatives); and
- Makes recommendations to financial institutions or takes formal and informal corrective actions to improve the financial safety and soundness of insured institutions.

The FDIC shares supervisory and regulatory responsibility for approximately 11,000 banks and savings institutions with several other organizations including the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and State authorities.

The FDIC directly supervises and regulates those insured state-chartered banks (including state-chartered savings banks) that do not belong to the Federal Reserve System, *i.e.*, non-member banks. The FDIC also has examination authority and back-up enforcement authority for state member banks, national banks, and savings associations.

The Supervision program encompasses two functional areas identified as Risk Management – Safety and Soundness and Risk Management Compliance and Enforcement.

SUPERVISION PROGRAM

Risk Management – Safety and Soundness Function

Functional Area

Risk Management – Safety and Soundness

Description

The FDIC performs the risk management – safety and soundness function primarily through its Division of Supervision (DOS). DOS exercises statutory authority, in cooperation with other federal and state regulators, to assure the integrity of the BIF and SAIF deposit insurance funds. This mandate necessitates that DOS examine or otherwise assess risk in all federally insured financial institutions. The FDIC is the primary federal banking regulator of all state non-member banks, including state-licensed insured branches of foreign banks and mutual savings banks. Relative to this role, the Division of Supervision performs safety and soundness examinations, visitations, and investigations. It also conducts offsite surveillance for every institution.

DOS uses two major assessment methods for determining the banking industry's overall financial health and stability: onsite examinations and offsite reviews. It commissions a group of experienced financial institution examiners to perform these tasks nationwide. The supervisory staff evaluates risk in every institution and determines the need for any corrective action to control the level of identified and potential risk. DOS also promotes safe and sound practices by ensuring compliance with federal and state laws, rules, and regulations.

Strategies & Initiatives

Strategies and major initiatives for Risk Management - Safety and Soundness include conducting ongoing risk assessments of all insured institutions. All institutions, for which the FDIC is the primary regulator, will be examined in accordance with statutory requirements, state agreements and other federal or state programs. Information generated by other regulatory agencies for institutions not examined by the FDIC as a primary regulator will be reviewed, assessed and analyzed. DOS will conduct various monitoring activities related to institutions identified as problem or troubled, and those under corrective or enforcement action. Initiatives include the further development and implementation of the risk focused examination and supervisory framework. DOS will interact closely with other regulatory agencies and will establish inter-divisional working groups to coordinate risk assessment efforts. Management and board meetings will be conducted with institution officials. Formal and informal training will be provided to all supervisory staff. DOS recently implemented a program to monitor and assess the risk associated with potential Year 2000 (Y2K) computer problems in financial institutions.

Operations

To appropriately assess risk in the current financial climate, DOS recently formed an International Branch, increased the responsibilities of the Capital Markets Branch, and fully implemented the Case Manager program. The International Branch was created to ensure that international banking activities were supervised effectively and cohesively within the FDIC. The creation of the branch was primarily due to significant changes within the banking industry. Financial institutions have continuously grown and expanded, and international boundaries are easily crossed. Improvements in technology have allowed banks to expand even more rapidly. These industry changes bring both new opportunities and new challenges. The International Branch is the FDIC's voice in understanding and acting on the supervisory challenges.

The Case Managers monitor all related or affiliated banking organizations regardless of geographic area. The Case Managers enhance DOS' risk assessment capabilities and also promote the quality and consistency of the examination process.

Staffing and Training

These two categories are major internal factors that affect DOS' ability to meet its goals. Staffing has been projected through the Year 2001 based on projected consolidation in the industry and asset growth, and the corresponding number of projected examinations. Staffing levels will be reviewed every year to make adjustments for external factors such as changes in legislation affecting the banking industry, and national or regional economic factors. In 1997, DOS instituted a crossover program in which 156 employees from other divisions were accepted into the examiner ranks. DOS is committed to providing them with the formal and informal training needed to complete the examiner commissioning process. Another crossover program will be initiated in late 1997, which will be supplemented by recruiting efforts so there will be an adequate number of trained employees to meet the annual performance goal of timely and comprehensive industry risk assessments. Ongoing training regarding capital markets and other safety and soundness issues will continue to be provided to all DOS employees.

Technology

DOS will continue to work internally and with other divisions on systems that promote examination efficiency, system modernization and management reporting.

Impact of Internal & External Factors

Economic, legislative, and technological factors are the principal external factors that could have an effect on FDIC's Safety and Soundness Function. The current economic situation has had a positive influence on the financial industry. However, while the current general economic climate is favorable, the FDIC could be impacted if a downturn materializes in the financial industry, whether such a downturn occurs locally, nationally, or globally. Should a slowdown materialize, the banking industry would likely experience slower loan

growth, higher loan losses and impaired profitability. These weaknesses would result in increased FDIC supervisory activity.

Recent legislation relating to interstate banking and interstate branching has impacted, and will continue to impact, the FDIC through increased industry consolidation. FDIC safety and soundness workload has been further impacted by changes adopted in State examination schedules. Various other legislative actions currently under consideration could also significantly impact the FDIC's Safety and Soundness Function. Depending upon the requirements included in any enacted legislation, the FDIC could be presented with a significant increased regulatory and supervisory workload. Topics currently under consideration for legislative action address merging the bank and thrift charters, financial modernization, Glass-Steagall reform, and new powers for banks. The pending Supreme Court case regarding credit union membership might also impact the supervisory workload. A confirmation of the lower court ruling could result in a large influx of new insurance applications in order for some of these institutions to continue operations and grow.

The most significant technological factor that could impact the FDIC's Safety and Soundness Function is the near-term, well-publicized, concern relating to potential Year 2000 computer problems. The potential negative fall-out from the industry's failure to address Year 2000 computer issues could be significant. Year 2000 computer problems could surface in many different situations, including a financial institution's own systems, a financial institution's customers, and third party servicers. Another technological factor potentially impacting the FDIC's Safety and Soundness Function relates to the growth in electronic banking products and services. Banking electronically poses new risks for both customers and financial institutions. Also, new banks are being formed which no longer accept deposits or make loans through traditional brick and mortar branches.

Major internal factors that could have an affect on FDIC's ability to meet it goals are staffing and training. Staffing projected through the Year 2001 is based on projected consolidation in the industry and asset growth, and the corresponding number of projected examinations. The

FDIC's ability to hire staff through internal programs such as the crossover program and postings, and external programs such as college recruiting efforts affect DOS' ability to meet examination schedules.

In order to keep FDIC examiners up-to-date, ongoing training regarding capital markets and other safety and soundness issues will continue to be provided to FDIC examiners. DOS will also provide formal and informal training programs to crossover candidates that joined the DOS in 1997, new crossover candidates, and other new hires. Innovations in training delivery systems may have a positive impact on DOS' training efforts and ability to meet examination schedules if less travel time is needed to receive training.

Strategic Goal and Objectives

Maintain the viability of the Deposit Insurance Funds.

- Evaluate risk in financial institutions; identify level of risk and management's ability to monitor, identify and control risk.
 - Review compliance with applicable federal and state laws, rules, and regulations.
 - Ensure FDIC insured financial institutions identify and address Year 2000 computer problems to avoid major service disruptions resulting from internal systems, vendor supplied services and customers with whom they exchange data electronically. Also ensure that financial institutions consider the impact of Year 2000 issues on large corporate borrowers whose creditworthiness might be diminished by their own Year 2000 service disruptions or whose Year 2000 related failure could have serious impact on the financial institution.
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Relationship of Strategic Goal to Annual Performance Goals

The FDIC monitors its progress toward achieving its long-term goal of maintaining the viability of the Deposit Insurance Funds through the risk management – safety and soundness function by conducting timely and effective safety and soundness examinations and performing off-site analyses. Examinations are conducted in accordance with

Safety and Soundness Function (Continued)

statutory requirements, FDIC policies, and agreements developed with state regulators. The information generated by the examinations and off-site analyses enables the Corporation to monitor risk and take the appropriate actions to maintain the viability of the Deposit Insurance Funds. The annual performance goals set forth in support of the long-term goals address examinations, risk assessment analysis, and the quality of the examination process.

SUPERVISION PROGRAM

Risk Management – Compliance and Enforcement Function

Functional Area

Risk Management – Compliance and Enforcement

Description

The FDIC is legislatively mandated to enforce responsibility for various consumer protection, civil rights, and certain other laws and regulations with respect to state-chartered, non-member banks. Some of the more prominent laws and regulations in this area include the *Truth in Lending Act*, the *Fair Credit Reporting Act*, the *Real Estate Settlement Procedures Act*, the *Fair Housing Act*, the *Home Mortgage Disclosure Act*, and the *Community Reinvestment Act of 1977*. In most cases, the FDIC is explicitly given this enforcement responsibility by a governing statute. In some cases, however, this responsibility evolves from a broader supervisory responsibility for evaluating whether insured state-chartered, non-member banks comply with applicable Federal laws.

The FDIC's primary means of accomplishing these tasks is through compliance examinations. The goal of the compliance examination is to improve the overall compliance performance of all state-chartered, non-member financial institutions. The compliance examination also helps to promote to consumers and others the benefits and protection afforded them by the laws and regulations.

Non-compliance with these laws and regulations results in violations. Violations give rise to possible civil liability, administrative reimbursement adjustments, or negative publicity, which may adversely affect the institution's financial condition. The compliance examination should result in the improvement of the financial institution's compliance posture and prevent or minimize the

occurrence of future violations. In addition, the compliance examination process should provide guidance to financial institution management regarding various consumer and fair lending laws, regulations, and policies; and any changes thereto between examinations.

Finally, the FDIC is constantly involved in reviewing, reevaluating, and if necessary, formulating regulations, policies, and procedures affecting the FDIC's compliance examination and enforcement program. The Compliance Examination and Enforcement Program is the primary responsibility of the Division of Compliance and Consumer Affairs (DCA).

Strategies & Initiatives

Strategies and major initiatives include administering the Corporation's examination and enforcement programs and evaluating compliance by FDIC-supervised institutions with consumer protection and fair lending laws, including the Community Reinvestment Act of 1977. This includes conducting compliance and CRA examinations, fair lending and other investigations, periodic bank visitations, and interim monitoring of financial institutions. (Interim Monitoring Activities will be suspended in 1998 and 1999 due to resource shortages.) In addition, if financial institutions are found to be in violation of any portion of the consumer protection laws and regulations, formal and informal enforcement actions may be taken, as necessary. Education, training and guidance will be provided to financial institutions.

Operations

The major long-term goal of the Compliance and Enforcement Function is to fully implement new: 1) interagency fair lending examination procedures, 2) Community Reinvestment Act (CRA) examination procedures for larger institutions, and 3) automation efforts. The Division of Compliance and Consumer Affairs (DCA) will also initiate a major redesign of the Compliance Statistical System (CSS). This redesign effort will ensure that information related to ratings, exam findings, and tracking and reporting requirements meet the Regional and Washington Offices real time processing requirements as well as interface cohesively with other Corporate databases.

In addition, we expect the rapid developments in electronic banking to result in significant changes in the industry. These changes will require attention by a well-trained examination staff that is better equipped technologically. DCA is also striving to have remote access and enhanced data transmission capabilities to promote data sharing with banks in ways that may enable self-assessment and fuller compliance.

Staffing

Staff performing duties related to the Risk Management – Compliance and Enforcement Function are located in the Washington Office, Regional Offices, and Field Office locations.

DCA's staffing strategy is to become self-sufficient and eliminate reliance on DOS detailees. DCA plans to maintain its authorized examination staffing level and hire to offset attrition enabling the division to handle its examination workload by year-end 2001, based on projected productivity improvements (reduced average hours per exam) and the decline in the number of institutions subject to examination. Staffing excesses will be managed through attrition; staffing shortages will be managed through new hiring or by increasing the exam delinquency rate if shortages appear temporary. Although the total number of staff will remain constant throughout this period, DCA will review its staffing and Field Office placement and may reallocate staff among Regions in conjunction with industry consolidation.

During 1998 – 2000, DCA anticipates employing a 50% external and 50% internal staffing strategy to fill vacancies. External staffing efforts will include college recruitment through the Outstanding Scholar program and joint minority recruiting with DOS. Internal staffing efforts will focus on attracting FDIC candidates at the entry level and non-status postings for employees who are in term or temporary positions.

DCA will continue to rely on DOS for direct administrative support in its regional and field office locations. DCA will eliminate its reliance on DOS for automation support and designate DCA compliance examiners to serve as Personal Computer Coordinators for

a portion of their time to address DCA specific application related activities. DCA will rely on the Division of Information Resources Management to provide direct LAN/hardware related support in the regional and field office locations.

Training

DCA is committed to providing adequate training to all examination staff. With the National Training Committee, the mechanism is in place to respond in a timely manner to the changing regulatory environment and changes in the examination process. The years 1998 and 1999 will be devoted to providing crossover candidates the formal training, on the job training, and coaching necessary to become commissioned examiners. From 1998 – 2001, DCA will continue to provide the examiner force with the technical and automation training necessary to improve overall examiner productivity.

To the extent that certain regulatory issues or examination processes change significantly, we have the options of modifying existing core curriculum or developing new training and/or pursuing external training opportunities to fulfill the training developmental needs. We will also explore using the distance learning facilities (to be available in all of our regional office locations) as a means for timely sharing of information and solutions. Automation will continue to impact our examination functions and allow us to complete our work more efficiently. We will provide the training necessary to keep our staff current in new technology.

Technology

In the long-term, the Division plans to continue to develop enhanced automated tools to support the compliance examination responsibilities of its examiners. Envisioned are enhanced remote access and data transmission capabilities for the laptop computers used by examiners, easier and more efficient ways to access, analyze, and report information and exam data for both internal and external purposes, and ways of sharing technology with banks and their service providers to promote a common goal of compliance with statutes and regulations.

Impact of Internal & External Factors

The workload of DCA could be greatly affected by changes in legislation and the Congressional oversight process. The general environment in which financial institutions operate will continue to evolve rapidly requiring continued industry education, outreach and technical support. The projections are for a sustained healthy economy; an acceleration of interstate banking; and new bank products, including electronic banking products such as smart cards. DCA will coordinate with other bank regulatory agencies in developing consistent examination procedures and regulations, including fair lending.

DCA will implement a supervision approach (case manager) which redefines how to address interstate and multi-institution organizations in order to improve both the efficiency and consistency of DCA's supervisory process, and continue to support reduction of regulation and examination burden in-house.

Strategic Goal and Objectives

Administer the Corporation's Examination and Enforcement Programs for evaluating compliance by FDIC-supervised institutions with consumer protection and fair lending laws, including the *Community Reinvestment Act of 1977*.

- Evaluate compliance of FDIC-supervised institutions with consumer protection and fair lending laws, including the Community Reinvestment Act of 1977.
 - Improve the financial institution's compliance posture and take preventive action to deter or minimize the occurrence of future violations.
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Relationship of Strategic Goal to Annual Performance Goals

The annual performance goals in this functional area directly facilitate achievement of the strategic goal identified for 1998 – 2002. The Corporation monitors its progress in achieving its long-term goal of evaluating compliance of financial institutions with consumer protection and fair lending laws by conducting efficient and effective compliance examinations. These examinations are used to improve the overall compliance

Compliance and Enforcement Function (Continued)

of all state-chartered, non-member financial institutions. In addition, the compliance examination process provides guidance to financial institution management regarding various consumer and fair lending laws and regulations. Both the examination process and guidance provided to institutions are addressed within the annual performance goals. In addition, annual goals will be set for performance related to the results of these efforts, the effectiveness of enforcement actions and the level of industry compliance over time.

POLICY, REGULATION, AND OUTREACH PROGRAM

The FDIC engages in a wide variety of operations and activities designed to support and promulgate certain programs required by various statutes related to consumer protection, fair lending, and deposit insurance. The FDIC has developed programs to address complaints and inquiries from consumers, financial institutions, and others about consumer protection and fair lending matters, as well as, deposit insurance. The FDIC fosters confidence in the banking industry by 1) informing depositors, financial institutions, and others about the FDIC's deposit insurance program; 2) enforcing consumer protection and fair lending laws and regulations; and 3) encouraging financial institutions to work closely with members of their local communities to help meet the communities' credit needs.

The FDIC works with the other Federal regulators to issue rules, regulations, and policies, which set standards for the activities of financial institutions. The FDIC provides financial institutions with guidance and conducts both industry and community outreach activities in an effort to better inform consumers, financial institutions, and others about community lending initiatives and the fair lending laws. The FDIC responds to complaints and inquiries in a fair, impartial, and timely manner. The FDIC utilizes information developed during this process to better substantiate that FDIC regulations and procedures are clear, consistent, and up-to-date, and will work to influence systematic changes where necessary to improve FDIC operations and customer service.

Future events significantly affecting the FDIC may also be addressed in this program. These events might affect the Corporation's policy or regulation development functions, its communication or outreach activities, or other undetermined areas of the FDIC.

The Policy, Regulation and Outreach program is supported by four functions: Consumer Affairs, Policy Leadership, Community Affairs and Outreach, and Outreach- Safety and Soundness. Each of these four functions is outlined in detail in the following sections.

POLICY, REGULATION, AND OUTREACH PROGRAM

Consumer Affairs Function

Functional Area

Consumer Affairs

Description

As mandated by established laws and regulations, the FDIC receives, tracks, investigates, and responds to consumer complaints of unfair or deceptive bank acts or practices by financial institutions. The FDIC has expanded this statutory mandate to include inquiries from consumers, financial institutions, and others about consumer protection and fair lending matters. Because of the FDIC's responsibility to insure financial institution deposits, the function also encompasses consumer and financial institution inquiries about deposit insurance.

The FDIC's complaint and inquiry function plays an important role in supervising financial institutions, educating the public about deposit insurance, and developing policy. In the area of supervision, the FDIC's compliance examinations identify trends or problems in banking that may affect consumer rights and protections. The FDIC fosters confidence in the banking industry by informing depositors, financial institutions, and others about the FDIC's deposit insurance program and other consumer protection/fair lending issues, and its roles and responsibilities for enforcing consumer protection and fair lending laws and regulations.

Strategies & Initiatives

Consumer Affairs strategies and major initiatives will include increasing coordination with other Federal agencies' consumer complaint groups regarding consumer complaints and inquiries, and developing trend analyses and tracking/coding systems to assist in the analysis and reporting of complaints registered with the FDIC. The

Consumer Affairs Function (Continued)

Corporation will maintain the "1-800" consumer and banker hotline number and respond to written complaints and inquiries.

DCA will promote public understanding of deposit insurance and the financial system. Currently, the FDIC provides educational materials and training opportunities for financial institutions, including banker seminars and a guide on deposit insurance. The availability of deposit insurance information, including consumer pamphlets, will be promoted through various media. DCA will also seek to identify new methods of effectively disseminating educational information to consumers and bankers, including ways of reaching target or new audiences.

Operations

For 1998 through 2002, DCA will focus its efforts on maintaining a comprehensive Consumer Affairs program. In response to legislative and regulatory analysis, FDIC is studying options for amending its deposit insurance regulations. DCA will continue to maintain a formalized plan to: 1) train bankers when new deposit insurance rules are adopted, 2) depending on the scope of the rule changes, develop a video for the industry and the public; and 3) revise the Deposit Insurance manual and/or *Your Insured Deposit* brochure and other consumer information materials. Through the Correspondence Telephone Tracking System (DCATTS), DCA will begin comprehensively analyzing trends related to consumer complaints and inquiries.

Staffing

Staff performing duties related to the Consumer Affairs Function is located in the Washington Office and the Regional Offices. A continual periodical reassessment of needs will be made to make certain there is sufficient staff to be responsive to consumer, banker, and regulatory agency staff complaints and inquiries. DCA will ensure there is sufficient staff to educate consumers and financial institutions about deposit insurance, the financial system, and consumer protection laws and regulations.

Training

DCA will continue to develop the knowledge and skills of its Consumer Affairs staff. We recognize these individuals are often the first points of contact for the public and bankers. The work is demanding and requires a vast knowledge of many issues. Consumer Affairs staff must have the technical and interpersonal skills necessary to meet that daily challenge. The training curriculum guidance proposed in late 1997 will be the foundation for individual development which will include developing technical regulation knowledge and interpersonal communication skills. Also foreseen is the need for periodic Consumer Affairs training to promote consistency among the regions and Washington Office, to identify and address consumer affairs emerging issues, and to share best practices. These training events will include representatives from the regional and Washington offices who will share information with their co-workers.

Technology

In the long-run, the DCA plans to improve and develop automated processes which will streamline and provide better service to the public in all areas of consumer affairs, including deposit insurance. Initiatives for consideration include greater use of the Internet to provide timely information to, and more efficient ways of interacting with, the public, such as providing a means by which consumers can determine how their deposits are insured and to what amounts; streamlined automation systems which promote more efficient capture of data for reporting and management assessment purposes; and continued data sharing with other agencies.

Impact of Internal & External Factors

The workload of DCA could be greatly affected by changes in legislation and the Congressional oversight process. The general environment in which financial institutions operate will continue to evolve rapidly requiring continued industry education, outreach and technical support. The projections are for a sustained healthy economy; an acceleration of interstate banking; and new bank products, including electronic banking such as smart cards. FDIC is also studying options for amending the deposit insurance regulations. The options

under consideration range from minor, technical changes to substantive changes in the deposit insurance rules. If only minor, technical changes are adopted, a relatively small increase (less than 5%) in consumer and banker inquiries is anticipated. However, if substantive changes are adopted, a substantial increase in consumer and banker inquiries will be expected. In addition, if substantive changes are adopted, DCA will need to significantly expand its efforts in the area of deposit insurance education and outreach for consumers and bankers.

Strategic Goal and Objectives

Promote Public Understanding of Deposit Insurance and the Financial System.

- Be responsive to consumers, bankers and regulatory agency staff by investigating and providing a timely and complete response to all complaints and inquiries.
 - Educate consumers and financial institutions about deposit insurance, the financial system, and consumer protection laws and regulations.
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Relationship of Strategic Goal to Annual Performance Goals

The annual performance goals in this functional area directly facilitate achievement of the strategic goals identified for 1998 – 2002. FDIC must excel in two key areas in order to achieve the long-term goal of promoting public understanding of deposit insurance and the financial system. First, we must respond to all inquiries and complaints in a timely and comprehensive manner. Second, we must take an active role in educating consumers and financial institutions about deposit insurance, the financial system, and consumer protection laws and regulations.

Since providing a timely response to consumer inquiries is an important factor in promoting consumer understanding, the FDIC has developed a performance goal that sets a target level of performance relating to the timeliness of responses to complaints and inquiries. FDIC has also identified annual performance goals that will help us to accomplish our objective of educating

Consumer Affairs Function (Continued)

consumers and financial institutions about deposit insurance, the financial system, and consumer protection laws and regulations. FDIC has established a performance goal which addresses the development of education and training materials that speak to the FDIC's role as insurer and reflects changes to the deposit insurance regulations.

POLICY, REGULATION, AND OUTREACH PROGRAM

Policy Leadership Function

Functional Area

Policy Leadership

Description

Divisions and Offices throughout the FDIC share responsibility for the Policy Leadership Function. Each Functional Area within FDIC's three program areas addresses policy issues. The Policy Leadership Function is designed to meet FDIC's responsibilities as the supervisor of state non-member institutions and insurer of bank and savings association deposits and to provide information to the public. The FDIC, under the leadership of the Board of Directors, must take a policy leadership role in the financial system. In particular, the FDIC must take a leadership role in developing, evaluating, and articulating comprehensive, timely and effective policy responses to emerging risks to the institutions we supervise and the deposit insurance funds. In addition, the FDIC is committed to sharing and communicating information to FDIC stakeholders. In carrying out the policy leadership function, the FDIC formulates and articulates new policy positions and reassesses policies and regulations to assure their currency and effectiveness as circumstances change.

Strategies & Initiatives

The FDIC will use a number of strategies to achieve its goals in the Policy Leadership function. These strategies include: ensuring coordination in the analysis of policy issues across FDIC program areas; drafting issues papers on relevant policy topics; ensuring that other financial regulators, the industry and the public have an opportunity, where appropriate, to provide input into FDIC policies; developing accurate and timely public statements and responses to congressional inquiries and oversight, including testimony; monitoring the FDIC's progress in implementing initiatives articulated in testimony and other publicly issued documents; and sponsoring periodic

symposia, interdivisional workshops and speakers series on selected policy topics. The FDIC also provides information to the industry and the public and responds to information requests.

Impact of Internal & External Factors

External factors that could affect achievement of the FDIC's Policy Leadership goals include economic changes, market and industry developments and legislative developments. For example, the FDIC may need to modify the focus of our policy efforts if Congress passes financial modernization legislation. It should be noted that the policy leadership area is forward looking and dynamic, and issues which are highest priority at one time could become much lower priority in a short period of time.

Strategic Goals and Objectives

- 1. Ensure that the FDIC establishes, maintains and articulates comprehensive, current and effective policies.**
 - Identify emerging policy areas and develop, evaluate and articulate policy responses to emerging risks in coordination among FDIC divisions and offices, working with other financial regulators, the industry and the public as appropriate.
 - Identify and analyze new financial technologies, products and services, and develop appropriate responses for the FDIC, working with other financial regulators, the industry and the public, as appropriate.
 - Review all FDIC regulations and statements of policy to eliminate or streamline regulations and policy statements where practical, reduce unnecessary costs, remove inconsistencies and outmoded and duplicative requirements, and achieve uniformity with the other regulators on common regulations.
-

2. Increase the effectiveness of internal and external communications by exploring new and innovative techniques and technologies.

- Enhance internal and external communication and share information on a timely basis.

**Relationship of
Strategic Goals to
Annual Performance
Goals**

The FDIC's Annual Performance Plan will include performance indicators that measure the Corporation's progress in meeting the Policy Leadership goals and objectives. For example, performance indicators supporting the objective of identifying emerging policy areas and, developing, evaluating and articulating policy areas and emerging risks will include the activities of working groups such as those on capital markets, interstate banking, financial modernization, the Year 2000 problem, deposit insurance reform, bank securities activities, electronic banking and consumer credit. Other performance goals supporting this objective are the issuance of issues papers on current policy topics; the development of accurate, timely and effective congressional testimony and other public statements; sponsorship of periodic symposia, interdivisional workshops and speakers series on selected policy topics, and other outreach efforts.

Performance goals supporting the objective of identifying and analyzing new technologies and developing appropriate responses are the activities of the electronic banking task force and the interagency Consumer Electronic Payment Systems Task Force, of which the FDIC is a member.

A performance goal supporting the objective of reviewing regulations and policy statements to ensure their currency and effectiveness is an indicator of whether or not the regulations and policies scheduled to be reviewed are actually reviewed according to established cycles.

These performance measures will be included in the Annual Performance Plan to show the FDIC's progress in meeting the Policy Leadership objectives, which in turn support the goal of ensuring that the FDIC establishes, maintains and articulates comprehensive, current and effective corporate policies.

POLICY, REGULATION, AND OUTREACH PROGRAM

Community Affairs and Outreach Function

Functional Area

Community Affairs and Outreach

Description

The FDIC, as required by the *Community Reinvestment Act of 1977* (CRA) and other related legislative actions, such as the *Equal Credit Opportunity Act* (ECOA), the *Home Mortgage Disclosure Act* (HMDA) and the *Fair Housing Act* (FHA); promotes compliance with the fair lending laws and encourages financial institutions to help meet the credit needs of their local communities.

DCA's Community Affairs Program supports FDIC in its supervisory role and its functions related to community reinvestment and fair lending, and assists consumer and community groups, government officials, and others in understanding and participating in the fair lending process. The program serves the FDIC, the lending community, and the public by providing information on, and assistance with, identifying and meeting community credit needs. Through community outreach efforts and technical assistance, the FDIC encourages lenders to communicate continually with members of their local communities about the communities' credit needs.

The FDIC also provides financial institutions with guidance on the manner in which their records will be evaluated, thus emphasizing the importance of complying with established laws and regulations. The FDIC, through its examination process, assesses each financial institution's record in helping meet local credit needs and takes that record into account when acting upon an application by the institution.

Strategies & Initiatives

Strategies and major initiatives include promoting compliance with the Community Reinvestment Act, including community development lending, and other fair lending laws and regulations. DCA will accomplish this through industry and community outreach activities, such as speaking engagements that provide information and respond to questions about fair lending laws and the FDIC's policies and procedures in implementing these laws. In addition, the FDIC will provide technical assistance to banks, community-based groups, and examiners that can be used to ensure understanding of and compliance with fair lending laws and regulations.

The FDIC will also educate bankers, community-based organizations, and bank examiners by conducting fair lending training, either individually or in conjunction with other government agencies and public/private organizations. The initiatives will be conducted primarily to spearhead efforts that result in increased knowledge of fair lending laws and regulations, enhanced lending performance, and/or development of strategies to help meet identified credit needs.

Operations

In the Community Affairs and Outreach area, focus will be placed on institutionalizing a national outreach program that emphasizes 1) partnership building between financial institutions and community based organizations, 2) the promotion and consistent application of CRA and fair lending through the issuance of Question-and Answer guides and other documents; speaking engagements; meetings and conferences; and focus groups, and 3) involvement in the development of broad policies related to CRA and fair lending.

In Community Affairs, DCA will participate, as part of an interagency initiative, in assessing the impact of CRA five years after its implementation. The Community Affairs program will continue to promote CRA and fair lending through its outreach activities and technical assistance provided to financial institutions and community-based organizations. New technologies (e.g., interagency community contact databases) will be used, which will allow information to reach a wider audience and have a

Community Affairs Outreach Function (Continued)

greater impact in assisting institutions and examiners to better understand credit needs and community investment opportunities.

Staffing

Staff performing duties related to the Community Affairs and Outreach Function is located in the Washington Office and the Regional Offices. DCA will continue to periodically reassess its need to make certain there is sufficient staff to support the promotion of the CRA, including community development lending and other fair lending laws and regulations.

Training

The Community Affairs and Outreach Functions of providing information and technical assistance to bankers, community groups, and our own staff will continue to increase in visibility and importance through 2001. DCA will support the continual development of the Community Affairs staff to ensure these individuals have the technical knowledge, interpersonal skills, and facilitation skills necessary to perform these roles. The Community Affairs curriculum research conducted during 1998 will serve as the foundation for Community Affairs staff training development and will be adjusted as necessary to meet regulatory and examination demands.

The Community Affairs Officers will continue to meet periodically to share technical knowledge, best practices, and solutions among regions and the Washington Office. Of particular training priority at these meetings will be: 1) clarifying interpretations of CRA and other fair lending laws and regulations, 2) gaining greater expertise in fair lending analyses, 3) sharing information on community development activities, and 4) reaching consensus on the most effective ways to support the examination process through training and technological assistance.

Technology

Over the next five years, DCA plans to evaluate ways in which automation can be used to better address changes in the banking environment which affect community groups and outreach efforts. Vehicles such as video-conferencing

Community Affairs Outreach Function (Continued)

and the Internet will continue to be utilized and enhanced as necessary, including making it easier for community groups to participate in the process. Exchanges of data and cooperative development on an inter-agency basis will also continue. DCA also envisions automation efforts supporting exchange of documents and information with both the banking and community affairs groups.

Impact of Internal & External Factors

The workload of DCA could be greatly affected by changes in legislation and the Congressional oversight process. The general environment in which financial institutions operate will continue to evolve rapidly requiring continued industry education, outreach and technical support. The projections are for a sustained good economy and an acceleration of interstate banking and new bank products, including electronic banking such as smart cards. DCA will promote compliance with the Community Reinvestment Act, including community development lending, and other fair lending laws and regulations.

Strategic Goal and Objectives

Promote compliance with the Community Reinvestment Act, including community development lending, and other fair lending laws and regulations.

- Assist financial institutions in understanding and complying with CRA, ECOA, HMDA, and Fair Housing by participating in outreach and education activities.
 - Foster ongoing communication between banks and community-based organizations to increase their involvement in the fair lending process and in community development projects that contribute to the stabilization and revitalization of communities.
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Relationship of Strategic Goal to Annual Performance Goals

The annual performance goals in this functional area directly facilitate achievement of the strategic goals identified for 1997 – 2002. The FDIC has established an annual performance goal that focuses on encouraging bankers' understanding and compliance with the Community Reinvestment Act and other fair lending laws and regulations and helps to foster communication between banks and community-based organizations. Specifically,

Community Affairs Outreach Function (Continued)

the FDIC has set targets for conducting banker outreach and education activities and for presentations to/facilitation at meetings of banker and community/industry groups. These initiatives are intended to result in the formulation of new partnerships, the strengthening of existing alliances, increased lending activity, and the development of strategies to meet identified credit needs.

POLICY, REGULATION, AND OUTREACH PROGRAM

Safety and Soundness Function

Functional Area

Safety and Soundness

Description

The FDIC recognizes a responsibility to promote safe and sound practices within the banking industry. The FDIC employs a variety of direct and indirect educational outreach efforts. The Corporation communicates directly with industry officials in response to specific oral or written inquiries, and during training seminars, symposia, or other industry related functions. The FDIC also serves as an informational resource on various complex industry-related topics such as capital markets or accounting issues. As new policy issues arise, the FDIC works with other financial regulators, Congress and the industry to formulate and articulate new policy positions. The FDIC regularly distributes written informational materials to bankers dealing with emerging and ongoing industry related issues. The distribution of these materials helps to facilitate the exchange of ideas that increase the effectiveness of internal and external communication on safety and soundness policy.

Strategies & Initiatives

Strategies and major initiatives include conducting meetings with institution officials outside the examination process, in regional areas and at FDIC headquarters, as deemed necessary. The FDIC will participate in, and sponsor, educational or informational training seminars, symposia, trade conferences, and trade association gatherings. The FDIC will distribute, as appropriate, informational and educational literature. The FDIC also participates in interagency data sharing on policy leadership issues, working with other regulators to create a unified policy directives system. In addition, the FDIC is in the process of establishing an inter-divisional outreach

program in which small groups of bankers and state regulators will participate in working sessions. This new outreach program will be designed to foster maximum interaction between the FDIC and the banking industry.

Organization

The Regional and Field Office structure promotes the interaction of DOS staff with their industry counterparts. This concept enables DOS to provide speakers or participants familiar with the state regulations and regional issues.

Staffing, Training and Technology

Outreach efforts are not limited to senior officials who can address division policies; DOS also provides specialists who can address specific safety and soundness issues. Outreach efforts include training that is targeted to policies and procedures or specific issues. These issues currently include technology initiatives such as the automated examination report, automated downloads from bank records, the Year 2000 problem and Electronic Banking.

Impact of Internal & External Factors

Various legislative actions and technological developments may impact DOS' outreach program. Legislative actions could impact the content of the outreach programs and create the need for increased outreach activities. DOS uses its outreach program not only to inform the participants about safety and soundness issues, but to provide training on technology initiatives such as the automated examination report, automated downloads from bank records, the Year 2000 problem and Electronic Banking.

An internal factor having a major impact on the DOS Outreach Program is the change in focus of the program. The FDIC is in the process of establishing an inter-divisional outreach program in which small groups of bankers and state regulators will participate in working sessions that will foster maximum interaction between the FDIC and the banking industry.

Safety and Soundness Function (Continued)

Strategic Goal and Objective

Promote safe and sound financial practices.

- Continue commitment to inform industry officials of FDIC's approach to safety and soundness practices.

Relationship of Strategic Goal to Annual Performance Goals

The FDIC recognizes that a key factor in achieving the long-term goal of promoting safe and sound financial practices in the banking industry is the education of industry officials to enhance their knowledge and understanding of FDIC's approach to safety and soundness practices. As such, a performance goal has been established that sets a target for FDIC participation in trade group and banker meetings. The FDIC seeks to maximize to the extent possible, its participation in these meetings so that issues of common concern can be identified, discussed and resolved.

<div><div>INTERNAL CORPORATE INITIATIVES</div><div><i>Organization and Human Resources Function</i></div></div>

Functional Area	Organization and Human Resources
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Description	<p>The FDIC's strategic planning process provides a continuing opportunity and a framework to examine the corporate management structure and decision making process. This examination will result in an enhanced ability to anticipate, identify and address corporate issues in an effective and integrated manner; integrate the planning and budgeting processes in order to better articulate resource requirements; and to hold the FDIC's operating units accountable for measurable contributions to corporate objectives. These efforts will provide opportunities to expand the FDIC's ability to meet its statutory responsibilities, to increase its operational efficiency and to enhance service to its customers.</p> <p>In the area of Human Resources, the FDIC is characterized by the dedication and professionalism of its employees. As the crises in the banking and savings industries have subsided, the FDIC has recognized the necessity of reducing the size of its own organization and the importance of developing broader opportunities for its employees.</p> <p>Over the past several years, the health of the banking industry has improved significantly, resulting in a sharp decline in the work associated with the resolution of failing institutions and the liquidation of failed bank assets. In recognition of the declining workload and in anticipation of the return of RTC employees and functions to the FDIC, the Corporation in 1995 initiated an in-depth analysis of its projected workload and staffing. This analysis indicated that the Corporation would have significant staffing surpluses in those functional areas whose work is related to resolution and asset liquidation activity as the residual work from the banking and the thrift crisis was completed.</p>
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In late 1995, the Corporation initiated a highly successful buyout program that resulted in the voluntary separation of about 900 permanent employees. In 1996, the Corporation formulated a comprehensive strategy for further staffing reductions over a three year period from 1997-1999. This downsizing program consisted of a second buyout program, targeted to the areas of excess staffing, that resulted in an additional 400 voluntary departures of permanent staff; the phased consolidation of six existing field liquidation offices to a single site, with corresponding staffing reductions; an extensive outplacement effort, providing individualized counseling and job search assistance to selected employees; cross-training of over 200 permanent employees to fill bank examiner and other vacancies within the Corporation; and reductions-in-force. These initiatives will result in a reduction of FDIC staff from approximately 11,850 employees at the beginning of 1996, after the integration of RTC operations and staff, to between 6,500 and 6,600 by year-end 2000. This will also complete the transformation of the Corporation to an organization focused on anticipating problems from one that responds to problems within the industry.

FDIC recognizes that failure activity could increase in the future. As such, the Division of Resolutions and Receivership has initiated a contingency planning effort that will result in a set of guidelines regarding a large and complex failure and the resources needed to handle such a failure. In the event the FDIC were required to respond to an unanticipated large failure or several smaller failures simultaneously, the contingency plan suggests that staffing needs first be addressed within DRR and then by other FDIC divisions. Primarily, staff would need to have some liquidation experience or knowledge of banking operations. If the need arose, contractor services or temporary staff appointments may also be necessary to meet the demand.

From an internal perspective, the FDIC must continually address and resolve the following questions:

- Does FDIC's current functional organization successfully support the corporate mission and vision?

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- How should FDIC be organized to focus its energies and resources on effectively identifying, monitoring and addressing risks to the financial industry and the insurance funds?
 - How can the FDIC ensure a more predictable working environment for employees, while responding quickly and effectively to new issues and crises?
 - What mix of experience, skill levels, and technologies does the FDIC need in order to be able to accomplish its mission?
 - How should FDIC training and personnel policies and practices be revised to further encourage a corporate perspective and interdivisional cooperation?
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Strategic Goals and Objectives

- 1. Review and modify, as necessary, the organizational structure of the FDIC to support achievement of its mission, vision, and goals.**
 - Evaluate the existing organization to enhance operational efficiency and effectiveness.
 - 2. Identify and implement approaches that encourage a Corporate perspective in decision-making.**
 - Develop a program that encourages inter-divisional teams to make Corporate decisions.
 - Evaluate the effectiveness of past inter-divisional approaches to Corporate decision-making.
 - 3. Develop FDIC Human Resources Policies and Practices to accommodate changing corporate goals and to meet future challenges.**
 - Adapt and communicate FDIC personnel policies and procedures to meet changing needs of the workforce.
 - Strengthen and enhance personnel operations.
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- Promote Corporate-wide involvement in human resources initiatives and programs.
- 4. Ensure that approaches to downsizing support the mission, goals, and objectives of the FDIC and that they are fair, equitable and humane.**
 - Conduct downsizing efforts while preserving adequate skill levels and assuring ability to respond to a changing environment.
 - Regularly communicate, to all FDIC employees, up-to-date information on the Corporation's approaches and programs related to downsizing.
 - 5. Promote an innovative, flexible, diverse, highly motivated, and experienced workforce through effective training and other management techniques.**
 - Increase expertise and knowledge of the workforce by providing employees with high quality training and educational opportunities.
 - Utilize cross-training of employees to promote a flexible workforce and to afford employees with a broader perspective of FDIC activities.
 - Evaluate and provide Corporate support for alternative management approaches while allowing for innovation and employee involvement.
 - Design, implement, and administer a Corporate performance and compensation program that is fair and responsive to both managers and employees.
 - Promote a work environment that is free of discrimination and that values diversity.
 - 6. Leverage technology to improve training processes by designing, developing and delivering instructional and performance support products to each employee's desktop.**
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- Install and implement two-way video/audio distance learning facilities within each regional office; determine the ability to extend distance learning opportunities to field sites.
 - Develop training to be delivered as multi-media, computer-base instruction.
 - With Division of Information Resources Management, participate in the development of performance-centered software systems. These systems integrate learning and support within the system so that training time is reduced and employees reach full proficiency sooner than through traditional means.
 - Explore the feasibility of delivering training over the Intranet and Internet and other emerging technologies and develop plans for its use.
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INTERNAL CORPORATE INITIATIVES

Technological Resources Function

Functional Area

Technological Resources

Description

The FDIC constantly strives to enhance its use of technology to accomplish its mission and strategic goals. Current initiatives are focused on identifying, developing and implementing new information technologies that will improve the effectiveness and efficiency of all aspects of the Corporation's primary activities. Strategic initiatives currently underway support goals associated with the Supervision, Insurance, and Policy, Regulation, and Outreach Programs.

The Automated Loan Examination Review Tool (ALERT) was recently developed and deployed. This system enables bank examiners to import loan portfolio information into a laptop computer for enhanced analysis and presentation.

The General Examination System (GENESYS), currently in the testing phase, provides broad automated support for bank examiners, allowing them to capture data pertinent to the examination on their laptop computers to facilitate analysis of that data and to streamline the process of developing and delivering the Report of Examination. The system is expected to be released in late 1997.

Development of these automated examination support systems will significantly improve the examination process. Features such as electronic capture of pertinent data, enhanced analysis tools and improved report generation capabilities combine to enhance the examiners' ability to analyze data. The benefit is an improved ability to judge the safety and soundness of financial institutions.

The Automated Compliance Examination Structure system (ACES) delivers automated tools to the compliance

examination process. This tool allows examiners to obtain loan and deposit data from an institution in an electronic format and provides utilities for the conversion of that data into formats used by other common PC applications. This data can then be analyzed and organized by the examiners. ACES provides the examiner with statistical sampling techniques for selecting products for review as well as the ability to determine the validity of the review results. The system also facilitates the recording of review results and preparation of the Report of Examination.

The Interactive Federal Deposit Insurance Calculator will be an Internet application accessible from the Corporation's home page enabling bank depositors to determine the adequacy of insurance coverage on their accounts. From the depositor's point of view, the application will be easy to use and will provide assessments for the basic consumer account types. The insurance calculator program will refer the more complicated assessments to appropriate sources of reference and assistance.

The Examiner's Package to Evaluate Risks and Trends (EXPERT) will provide economic and financial information from corporate and outside data sources (e.g., Moody's, S&P, and Loan Pricing Corporation) to FDIC examiners for their use in assessing risks to institutions. EXPERT is an Intranet-based application that provides financial information on industries, companies, and loan pricing allowing examiners access to data without having to acquire additional skills to use any interface other than their Web browser.

Consolidated Asset System Modernization Project (CAMP) is being developed to enhance Corporate asset inventory management, sales planning and results reporting; ensure that data is available to address feedback capability for the asset recovery computation; strengthen data; make asset-related data accessible for reporting; and bring the technology supporting asset inventory, management, sales, and reporting up-to-date.

The FDIC also recognizes that the achievement of its strategic goals and objectives is highly dependent upon the availability and accessibility of consistent and accurate data. As such, a Corporate Data Sharing initiative is currently underway to provide consistent, accurate and

accessible data stores, or Data Warehouses, that will support the FDIC's short and long-term information needs. Historically, FDIC divisions and offices have developed systems to meet the specific data and performance needs of each organization. This has led to instances of duplicative data, inconsistent definitions of the data used by each organization, and contradictory answers to business questions. The Data Warehouse will serve to consolidate and coordinate corporate data and provide accurate business information to enhance corporate decision making capabilities.

Strategic Goals and Objectives

- 1. Ensure that all Corporate automated systems are Year 2000 ready.**
 - Assess, renovate as necessary, test and implement computer application systems which are Year 2000 compliant.
 - Assess, test and replace as necessary, any telephone, network, or computer hardware that is not Year 2000 compliant.
 - 2. Identify, evaluate, and implement new systems and technological approaches for meeting Corporate strategic goals.**
 - Establish and maintain Corporate-wide information resource management programs based on broad-based input that encourages innovation.
 - Continue to develop and enhance effective Corporate services and systems, based on user input.
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INTERNAL CORPORATE INITIATIVES

Financial Accountability Function

Functional Area

Financial Accountability

Description

The FDIC must have an effective system of accountability and control in its financial operations. By maintaining strong and solvent insurance funds, the FDIC will meet its mission without imposing costs on taxpayers. As the FDIC exercises disciplined cost containment in preserving its financial strength, particularly during a period of downsizing, it must address the following questions:

- How can the FDIC balance its responsibility to assure the health of financial institutions and the insurance funds with the necessity to contain costs?
- How can the FDIC continue to meet its fiscal responsibilities effectively?

The FDIC is committed to providing timely, reliable, useful, and consistent financial information as required by the Chief Financial Officers Act. A number of corporate initiatives are underway to seek ways to improve the dissemination of financial information to our stakeholders. One initiative currently in process seeks to define the FDIC's internal and external information audience and survey this audience to determine how we can better serve their informational needs.

A second major initiative underway at the FDIC is the development of a new Business Planning System that will effectively link the budget process to the strategic planning process. This system will provide the FDIC with the enhanced capability to track budgeted costs and expenses by program area and evaluate the costs associated with program performance results. This system is expected to be in place for formulation of FDIC's 1999 budget.

Strategic Goals and Objectives

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- 1. Maintain the viability of the deposit insurance funds.**
 - Assure insurance funds receive revenues, commensurate with insurance risk.
 - Maximize earnings on fund investments within prudential boundaries.
 - Promote the full capitalization of the BIF and SAIF funds.
 - 2. Achieve greater operational efficiency through the use of improved reporting and measurement tools.**
 - Enhance inter-divisional access to financial data.
 - Improve cost accounting and reporting systems to enhance management decision-making.
 - Evaluate and improve program management reporting.
 - 3. Maintain and improve effective financial and nonfinancial internal controls.**
 - Maintain an effective system of internal controls which does not overburden personnel and systems.
 - Maintain a strong and viable Corporate CFOA process.
 - 4. Assure timely and informative disclosure of FDIC financial information.**
 - Evaluate the current reporting process and enhance the process of disseminating information to member institutions, Congress, and the general public.
 - Provide informative data on the financial condition and operations of the FDIC.
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5. Assure that budgetary decisions are linked to planning and operations.

- Ensure Corporate Strategic and Annual Performance Plans are available before budget formulation.
 - Promote the concept of budget accountability.
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PROGRAM EVALUATION

Functional business areas that carry out the FDIC's programs incorporate evaluative processes in their routines or are evaluated through review processes designed to measure adherence with program guidelines and measure effectiveness. Performance measures and other evaluation factors are established to provide a framework for conducting operations and performing analysis, and to clearly define the standards of FDIC business programs. Although the FDIC continually evaluates the effectiveness of our major programs, there is currently no formal program evaluation process. Current or planned program evaluation efforts by the FDIC offices and divisions to assess, through measurable and systematic analysis, the manner and extent that programs achieve their intended objectives include:

- The Division of Resolutions and Receiverships study of the FDIC and RTC efforts during the banking crisis of the late 1980's and early 1990's. The results of this study will benefit primarily the resolution and the receivership management functional areas. The study is expected to be completed in mid 1998. A public symposium on the team publication, *Managing the Crisis: the FDIC and RTC Experience* will be held in April 1998.
- The review of the current FDIC policies and procedures used in the management of a failed financial institution receivership. A multi-divisional team, led by the DRR, is studying the receivership management process from inception through termination. The review team is expected to make policy and/or procedural recommendations in March 1998.
- The Division of Insurance's evaluation of its publication, *Regional Outlook*, which contains financial information on banking and industry trends. The *Regional Outlook* is available to the FDIC and the public. A readership survey will be included with the publication to determine the extent that the publication is meeting the needs of its users. The impact of the publication's effectiveness to inform examiners of emerging risk areas and to enhance the examination process will be evaluated. By the first quarter of 1998, the results of the survey should be compiled for analysis. During 1998, several focus groups will be formed to review the survey results and make any recommendations for changes to the *Regional Outlook*.
- The Division of Supervision's ongoing evaluation of Safety and Soundness examinations. Following the completion of a Safety and Soundness examination, each bank is given the opportunity to complete a survey regarding its experience with the examination process. The survey results are compiled, published quarterly, and reviewed by senior managers. Results of the survey are used to review and improve

Program Evaluation (Continued)

examination procedures and ensure uniformity of the examination process between regions.

- To promote critical analysis of the bank resolution process, and in response to a General Accounting Office report finding, a system is in development that will enable comparison of estimated and actual costs in the failed bank resolution process. The FDIC will use this analysis to review the input assumptions for the least-cost analysis performed in the resolution process, and to evaluate asset management and disposition programs. These efforts will aid the FDIC in refining strategies to meet the cost minimization goal of the failed institution resolution program.
- The Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires the banking agencies to review all of their regulations at least once every ten years. Under a policy statement adopted by the Board of Directors in 1979, the FDIC reviews all regulations every five years to ensure their currency and effectiveness. These regulatory reviews focus on whether the regulation is achieving its intended purpose and whether the regulation should be continued, revised or eliminated. The findings of these reviews are published for public comment before being adopted in final form. The FDIC is currently reviewing its regulatory review cycle and is considering extending such reviews to all policy statements as well.

In addition to division and office program evaluations, the FDIC relies upon the work of its Offices of Internal Control Management (OICM) and Inspector General (OIG), as well as, audits and reviews performed by the General Accounting Office. The OICM was created for the express purpose of coordinating internal control activities throughout the FDIC and ensuring that the agency has a strong, effective program of internal controls.

One responsibility of the OICM is to prepare the annual Chief Financial Officers Act Report to Congress. Based on the mission of each division and office, the OICM works closely with management to coordinate and evaluate their risk management and internal control activities. Each office and division prepares a five-year plan for the review and evaluation of their programs and related controls to ensure that their mission is accomplished.

OICM also administers a visitation program that focuses on high-risk areas. This program operates in conjunction with individual division or office review programs and supplements their work as necessary. Additionally, the OICM staff performs special reviews and evaluations at the request of senior management.

The OIG conducts a variety of audits, evaluations, and other reviews, many of which are designed to assess the manner and extent to which FDIC programs and activities achieve their intended objectives. Along with other FDIC evaluative tools, and General Accounting Office reviews, these reviews are used by FDIC management to evaluate program performance and, consistent with the Results Act requirements, are used to establish and revise strategic goals and objectives as appropriate.

Program Evaluation (Continued)

FDIC program performance is evaluated on a quarterly and annual basis. FDIC program performance is evaluated on a quarterly basis through a Quarterly Performance Reporting Process. This process was initiated in May 1997 and includes a detailed review of progress made with respect to the performance measures and targets set forth in the Annual Performance Plan. The evaluation process is facilitated by the issuance of a comprehensive quarterly performance report, which details performance results during the quarter. This report is presented to the FDIC's Operating Committee, which is comprised of the Chairman and FDIC senior management. This process not only holds our managers accountable for achievement of their goals but also provides a feedback mechanism to revise goals, strategies, objectives, or resource allocation as required.

The FDIC Chairman and senior management team also gather on an annual basis, typically during the first quarter of the year, to review program performance results from the prior year and to make adjustments to strategic goals, objectives and the strategies employed to accomplish these goals and objectives. Program evaluation findings are used to refine and update the FDIC's strategic goals and other components of the plan. On-going program analysis provides the underpinning of the FDIC's planning process, as reflected in the strategic plan.

In developing and monitoring our Strategic and Annual Plans, the FDIC uses a variety of evaluative products, including GAO and Inspector General report findings, and processes, such as cost-benefit analysis and internal control reviews, which support our annual reporting to the Congress as required by the Chief Financial Officers Act. In addition, the FDIC surveys stakeholders to generate feedback on its programs. For example, an outreach program was developed through which senior FDIC executives meet with bankers to explain corporate programs and initiatives and to elicit comments and suggestions regarding FDIC supervisory and regulatory programs. Also, the FDIC surveys users of its information products to measure the effectiveness of existing products and to collect ideas for enhancements and new products.

The FDIC has systems in place and others in development to produce reliable performance and cost data for the purposes of setting goals, evaluating results and improving performance. Annual performance goals are established using historical data and current assumptions, and actual performance is measured against those goals. The FDIC is using advanced information technology to capture, organize and analyze condition and performance data that will further aid these efforts.

The FDIC has also established an Information Technology Council, chaired by the Chief Operating Officer, which is designed to prioritize the FDIC's significant investment in information technology projects in line with our overall goals and priorities. The Information Technology Council reviews technology projects to ensure they meet stated development and performance targets within predefined budget parameters. The FDIC's technology program, itself, is subject to continual evaluation.

When the FDIC developed and published its Strategic Plan in 1995, it recognized that the environment in which the FDIC operates is constantly changing, and so established a

Program Evaluation (Continued)

mechanism for reviewing and updating the plan annually. The FDIC's current Strategic Plan, for the years 1997-2002, is the plan's third version, reflecting its second update. The FDIC's programs are also evaluated regularly, to ensure effectiveness and promote accountability. For example, the status of short-term projects designed to support the goals and objectives of the Strategic Plan are updated monthly and reviewed semi-annually by senior management. The FDIC also performs a budget variance analysis each month and reports to the Operating Committee quarterly.

The FDIC is committed to improving the planning and coordination of the program evaluation function. Towards this end we have met with staff from the General Accounting Office to discuss evaluation methodologies. We plan to identify options for the FDIC to improve its program evaluation process. Program evaluation findings will continue to be used to improve performance in the FDIC's programs, as the FDIC maintains its focus on operating in an effective, cost-beneficial manner.

INTER-AGENCY COORDINATION OF CROSS-CUTTING ISSUES

As required by the Results Act, the FDIC has been working closely with the other depository institution regulatory agencies (Office of Thrift Supervision, Office of the Comptroller of the Currency, and National Credit Union Agency) to address programs that transcend the jurisdiction of each agency. In this connection, the FDIC hosted a meeting of the Chief Financial Officers of the depository institution regulatory agencies, which resulted in creation of an interagency working group to address and report on issues of mutual concern.

The interagency working group has been meeting monthly since June 1997, and established various subgroups to work on issues related to those general goals and objectives that cross agency functions, programs, and activities. The results of the interagency coordination have been positive. In initial meetings of the Working Group, agency Strategic Plans were shared and it was noted that in the area of Safety and Soundness each of the plans had similar goals, objectives and measures. Several additional areas have been identified where there is a possibility for coordination on common measures. These areas include the Home Mortgage Disclosure Act (HMDA), Year 2000 Computer Protocol, Electronic Banking (a.k.a. Cyberbanking), various Safety and Soundness Examination Functions and Outreach.

The participating agencies agree that the options mentioned above are viable for developing common measures, and these options will be given consideration in future revisions to the Strategic Plan. In addition, no new measures will be recommended for interagency use without a test or trial period where differences among agencies can be analyzed and corrected.

The working group believes that the substance of our plans shows substantial evidence of our efforts to coordinate on common measures.

CONSULTATION WITH STAKEHOLDERS

Consultation with FDIC Stakeholders

The FDIC continually consults with various stakeholders regarding our Strategic Plan. As mentioned earlier, our stakeholders include our employees, the financial institutions we insure, the public, the banking and thrift industries, and community organizations. We inform key stakeholders of our strategic planning process and strategic initiatives on an ongoing basis through participation in outreach opportunities, speeches to industry trade groups, and participation by senior FDIC officials in various consumer trade group activities. The Strategic Plan was presented to and discussed with our Board of Directors at public meetings in April 1995, April 1997 and September 1997. Such open meetings provide the public with an opportunity to hear strategic issues being discussed before the Board.

The Strategic Plan is made widely available to FDIC insured and supervised banks, industry consumer groups, and the general public. The Strategic Plan is available on the FDIC Home Page on the Internet for review by visitors to our website. The Plan is also available to FDIC employees through FDICnet, our intranet facility. Notification of the availability of our Plan on the Internet is publicized through a variety of methods: Financial Institution Letters; Press Releases; mailings to recipients of our Quarterly Banking Profile reports; and through our electronic distribution service which notifies subscribers about the availability of FDIC products. We estimate that we reach between 12,000 - 15,000 of the FDIC's wide range and variety of stakeholders through our efforts in this area.

As of September 1, 1997, the FDIC Strategic Plan website had received over 800 hits. In addition, approximately 120 telephone request for a copy of the Plan had been received from bankers throughout the country. Although few comments have been received to date, the FDIC will review and consider all stakeholder comments as part of the planning process.

Consultation with Congress

With respect to consultation with the Congress on our Strategic Plan, the FDIC has regularly appeared before Congressional committees and answered written requests to discuss issues relating to our strategic initiatives. We also recently have met several times with congressional staff concerning the FDIC's compliance with the Results Act. The Congress has made a number of useful suggestions that have been incorporated into and significantly improved the FDIC Strategic Plan.

APPENDIX

ANNUAL PERFORMANCE GOALS MATRIX

INSURANCE PROGRAM

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Risk Analysis and Assessment Function	Proactively Identify and Address Risks to the Deposit Insurance Funds.	(DI-934) Regular DOI and DOS reports discussing the condition of the industry and developments affecting the risk profiles of FDIC-insured institutions. (DOI)
		Semiannual evaluations measuring the effectiveness and usefulness of the quarterly regional reports.
		Semiannual risk classifications assigned and reviewed for Board approval of Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) premium rate cases.
		(DI-005) Develop early warning systems to detect increasing risk to the banking system and individual institutions by 6/30/98. (DOS)
		(DI-008) Develop proposed common Call Report by 3/31/98. (DOS)
Resolution of Failing Institutions Function	Minimize Costs to the Insurance Funds from Failing Financial Institutions.	Market 80% of the failing financial institution's assets, based upon book value, except in cases of liquidity failure or fraud at the time of resolution or within 90 days thereafter.
		Resolve failing banks within 90 days of DRR's access, except where a large number of acquirers requesting due diligence make this impossible.
		Reopen new institution or begin depositor pay-outs within 3 calendar days of the institution failure.
		(DI-015) Continue study to complete the publication "Managing the Crisis: the FDIC and RTC Experience" and conduct a public symposium to discuss the findings of that study. Target completion is June 1998. (DRR)
		(DI-954) Develop consistent guidelines for the resolution of regular financial institution failures by 3/31/98. (DRR)

INSURANCE PROGRAM (Continued)

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Resolution of Failing Institutions Function (Continued)	Minimize Costs to the Insurance Funds from Failing Financial Institutions. (Continued)	(DI-750) Continue study of possible performance measurement tools for the purpose of validating valuation assumptions used in the AVR process, the least cost test and improving the design of resolution structures. Target completion date is September 1998. (DRR)
Receivership Management Function	Foster Efficient and Responsive Receivership Management.	Reduce the number of receiverships placed in active status, such that by year-end 1998, 878 receiverships to remain active.
		Collect \$1.15 billion from the administration and disposition of failed institution assets by year-end 1998.
		Achieve \$1.65 billion in book value reductions by year-end 1998 of failed institution assets managed by FDIC.
		(DI-936) Complete the study of receivership management policies and procedures. Develop recommendations for possible alternative approaches to effective and efficient receivership management by March 1998. (DRR)
		(DI-935) Develop an oversight program for the management and disposition of high risk assets by 3/31/98. (DRR)

SUPERVISION PROGRAM

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Risk Management - Safety and Soundness Function	Maintain the Viability of the Deposit Insurance Funds.	Timely and comprehensive industry risk assessments.
		Quality supervisory process.
		Timely feedback on the FDIC's evaluations to banks' boards of directors.
		Timely review of examination reports on institutions for which the FDIC is not the primary supervisor.
		Quarterly risk assessment analysis of exception reports.
		Timely processing of statutory notices and applications.
		Assessment of compliance with governing laws and regulations in the institutions examined.
		Timely risk assessment and follow-up of Y2K issues.
		(SR-688) Improve efficiency with regard to examination function by organizing and implementing a program for Nondeposit Investment Products by 9/30/98. (DOS)
Risk Management - Compliance and Enforcement Function	Administer the Corporation's Examination and Enforcement Programs for evaluating Compliance by FDIC-supervised Institutions with Consumer Protection and Fair Lending Laws, including the <i>Community Reinvestment Act of 1977</i> .	Measure effectiveness of formal and informal enforcement actions based upon assistance provided to banks with significant patterns of non-compliance and eventual return to non-problem status.
		Percentage of compliance and CRA examinations conducted according to agreed-upon schedule.
		Ensure the average turnaround time on issuing a final report to the bank is 40 calendar days or less.

SUPERVISION PROGRAM (Continued)

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Risk Management - Compliance and Enforcement Function (Continued)	Administer the Corporation's Examination and Enforcement Programs for evaluating compliance by FDIC-supervised institutions with Consumer Protection and Fair Lending Laws, including the <i>Community Reinvestment Act of 1977</i> . (Continued)	Monitor change in overall level of industry compliance over time.
		Maintain the 1997 number of reports in process more than 75 calendar days.

POLICY, REGULATION, AND OUTREACH PROGRAM

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Consumer Affairs Program Function	Promote Public Understanding of Deposit Insurance and the Financial System.	Responses on complaints and inquiries provided within time frames established by policy.
		Conduct one deposit insurance (banker education) seminar in each region, depending on demand, with support from the Legal Division.
		Produce educational and training materials related to the role of FDIC as insurer and revise brochure to reflect deposit insurance simplification, statutory and regulatory changes, emerging trends, and identified needs for enhanced consumer knowledge.
		(DI-975) Develop and implement deposit insurance calculator for the general public and make available through the Internet. (DCA)
		(DI-017) Publish simplified FDIC Insurance Coverage Rules by 3/31/98. (LEG)
Policy Leadership Function	Ensure that the FDIC Establishes, Maintains, and Articulates Comprehensive, Current and Effective Policies.	Develop accurate and timely public statements and responses to congressional inquiries and oversight including testimony, as requested.
		Develop FDIC regulations and statements of policy that address emerging market, economic, technological, and legislative developments.
		Review existing regulations and policy statements in accordance with the review cycle established by the Office of the Executive Secretary (OES).
	Increase the Effectiveness of Internal and External Communications by Exploring New and Innovative Techniques and Technologies.	Develop alternatives for improving the quality, availability and means of dissemination of information through innovative technology in accordance with Division of Research and Statistics (DRS) schedule.
		(PL-974) Coordinate related data exchange, common data bases and emerging matters of importance, as needed. (DOS)

POLICY, REGULATION, AND OUTREACH PROGRAM (Continued)

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Community Affairs and Outreach Function	Promote compliance with the Community Reinvestment Act, including Community Development Lending, and Other Fair Lending Laws and Regulations.	Conduct banker outreach and education activities in accordance with workload assumptions.
		Conduct presentations to and facilitate at meetings of banker and community/industry groups.
Safety and Soundness Function	Promote Safe and Sound Financial Practices.	Washington, Regional Office and Field Office staff will participate in trade group and banker meetings.

INTERNAL CORPORATE INITIATIVES

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Organization and Human Resources Function	Review and Modify, as necessary, the Organizational Structure of the FDIC to Support Achievement of its Mission, Vision, and Goals.	
	Identify and Implement approaches that encourage a Corporate Perspective in Decision-making.	
	Develop FDIC Human Resources Policies and Practices to Accommodate changing Corporate Goals and to meet Future Challenges.	
	Ensure that approaches to Downsizing support the Mission, Goals, and Objectives of the FDIC and that they are Fair, Equitable and Humane.	(HR-789) Provide outplacement services, including training and counseling, on an as needed basis, to FDIC employees affected by downsizing.
	Promote an Innovative, Flexible, Diverse, Highly Motivated, and Experienced Workforce through Effective Training and Other Management Techniques.	(HR-691) Develop and implement the Pay-For-Performance Program by 12/31/98. (DOA)
		(HR-128) Implement a Financial Analysis Curriculum for Corporate-wide use by 12/31/98. (DOA)

INTERNAL CORPORATE INITIATIVES (Continued)

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Organization and Human Resources Function (Continued)	Leverage Technology to improve Training Processes by Designing, Developing and Delivering Instructional and Performance Support Products to each employee's desktop.	By the year 2000, Deliver 30% of Instruction through Technology-supported Delivery Systems.
Technological Resources Function	Ensure that all Corporate automated systems are Year 2000 ready.	Timeliness in meeting DIRM procedures and protocol for Year 2000 compliance. The following DOA systems are already being addressed by DIRM: ASB's National Contractor System; PSB's National Finance Center applications, Personnel Action Request System (PARS), and Time and Attendance Processing System (TAPS); TCSB's Training Management System (TMS) and CSB's computer-based building, administrative and security systems in FDIC-owned space.
	Identify, Evaluate, and Implement New Systems and Technological approaches for Meeting Corporate Strategic Goals.	(HR-690) Ensure that the FDIC systems are prepared for the year 2000 by renovating and validating software by 12/31/98. (DIRM)
		(HR-769) Implement an overall Corporate data sharing strategy by 6/30/98. (DIRM)
		(HR-607) Streamline and automate the travel and relocation process by 2/28/98. (DOF)

INTERNAL CORPORATE INITIATIVES (Continued)

FUNCTIONAL AREAS	STRATEGIC GOALS	1998 ANNUAL PERFORMANCE GOALS
Financial Accountability Function	Maintain the Viability of the Deposit Insurance Funds.	(FA-909) Ensure that the Corporation is prepared to effect a merger of the insurance funds by 9/30/98. (DOI)
	Achieve Greater Operational Efficiency through the use of Improved Reporting and Measurement Tools.	(FA-829) Improve cost accounting and reporting systems to enhance management decision-making by 2/28/98. (DOF)
	Maintain and Improve Effective Financial and Nonfinancial Internal Controls.	
	Assure Timely and Informative Disclosure of FDIC Financial Information.	
	Assure that Budgetary Decisions are Linked to Planning and Operations.	(FA-973) Develop a system which complies with "The Results Act" to integrate corporate plans with budget by 6/30/98. (DOF)